

**SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION, AND  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEARS ENDED  
JUNE 30, 2012 AND 2011**

SPENCER MUNICIPAL HOSPITAL AND  
ABBen CANCER CENTER, LLC  
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SPENCER MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND OFFICIALS  
JUNE 30, 2012

BOARD OF TRUSTEES

TITLE

TERM EXPIRES

John Rahn	Chairman	December 31, 2015
John Cotton	Vice Chairman	December 31, 2015
Neal Conover	Secretary/Treasurer	December 31, 2013
Gary VanHofwegen, DDS	Trustee	December 31, 2013
Kris Van Berkum	Trustee	December 31, 2015

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations
Mark Gaworski	Vice President of Finance and Chief Financial Officer
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development

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P.O. Box 175  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Spencer Municipal Hospital and  
Board of Managers of  
Abben Cancer Center, LLC  
Spencer, IA 51301

We have audited the accompanying balance sheets of Spencer Municipal Hospital (Hospital), an enterprise fund of the City of Spencer, Iowa, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We have also audited the balance sheets of Abben Cancer Center, LLC, (Abben), a discretely presented component unit, as of June 30, 2012 and 2011, and the related statements of income and member's equity and cash flows for the years then ended. These financial statements are the responsibility of the Hospital and Abben's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and we also audited the Hospital in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of Spencer Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison schedule on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information included in Schedule 7, which is marked "unaudited", has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Wintner, Stave & Co., LLP*

October 3, 2012

# SPENCER MUNICIPAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Introduction**

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal year ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the balance sheet, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

## **Required Financial Statements**

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding or property tax revenues from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## **Financial Highlights for 2012**

- Total assets increased by \$4,950,046 to \$100,059,269.
- Net assets increased by \$6,612,131.
- Total noncurrent cash and investments increased by \$518,440.
- Total liabilities decreased by \$1,662,085.
- The operating margin for fiscal year 2012 was 10.08%.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Financial Highlights for 2011**

- Total assets increased by \$3,707,880 to \$95,109,223.
- Net assets increased by \$6,285,582.
- Total noncurrent cash and investments increased by \$451,041.
- Total liabilities decreased by \$2,577,702.
- The operating margin for fiscal year 2011 was 7.37%.

**Financial Analysis of the Hospital**

The balance sheet and the statement of revenues, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

**Assets, Liabilities, and Net Assets**

A summary of the Hospital's balance sheets at June 30, 2012, 2011, and 2010 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Balance Sheets	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets .....	\$ 53,910	\$ 47,117	\$ 40,499
Capital assets .....	<u>46,149</u>	<u>47,992</u>	<u>50,902</u>
<b>TOTAL ASSETS</b>	<b><u>\$100,059</u></b>	<b><u>\$ 95,109</u></b>	<b><u>\$ 91,401</u></b>
Current liabilities .....	\$ 7,980	\$ 8,040	\$ 8,778
Long-term debt outstanding .....	<u>8,614</u>	<u>10,216</u>	<u>12,056</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 16,594</u></b>	<b><u>\$ 18,256</u></b>	<b><u>\$ 20,834</u></b>
Invested in capital assets - net of related debt .....	\$ 36,002	\$ 36,017	\$ 37,179
Restricted .....	1,938	1,624	1,375
Unrestricted .....	<u>45,525</u>	<u>39,212</u>	<u>32,013</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 83,465</u></b>	<b><u>\$ 76,853</u></b>	<b><u>\$ 70,567</u></b>

Net assets increased by \$6,612,131 to \$83,464,656 in fiscal year 2012. Net assets increased by \$6,285,582 to \$76,852,525 in fiscal year 2011. The change in net assets results primarily from operating income.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Revenues, Expenses, and Changes in Net Assets**

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net assets for each of the fiscal years ended June 30, 2012, 2011, and 2010.

Table 2 (in thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues .....	\$67,720	\$65,089	\$67,111
Operating expenses .....	<u>60,891</u>	<u>60,294</u>	<u>61,322</u>
Operating income .....	6,829	4,795	5,789
Nonoperating income (expense) .....	<u>(265)</u>	<u>1,453</u>	<u>(79)</u>
Excess of revenues over expenses before contributions .....	6,564	6,248	5,710
Contributions .....	<u>48</u>	<u>38</u>	<u>481</u>
Change in net assets .....	6,612	6,286	6,191
Total net assets - beginning of year .....	<u>76,853</u>	<u>70,567</u>	<u>64,376</u>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<b><u>\$83,465</u></b>	<b><u>\$76,853</u></b>	<b><u>\$70,567</u></b>

**Operating and Financial Performance**

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net assets as of June 30, 2012, 2011, and 2010.

Volume - Volume statistics are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Inpatient discharges .....	3,159	3,376	3,573
Inpatient days .....	12,729	13,385	14,595
Outpatient visits .....	120,682	121,793	121,625

Net Patient Service Revenue - Our net patient service revenues increased \$2,267,199 in 2012 and increased \$519,901 in 2011. These changes are the result of the following changes in gross revenues and contractual and bad debt adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total patient service revenues .....	\$139,388,404	\$133,293,147	\$128,053,570
Contractual and bad debt adjustments .....	(75,685,870)	(71,857,812)	(67,138,136)
Adjustments as percent of revenues .....	<u>54.3%</u>	<u>53.9%</u>	<u>52.4%</u>



SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2012, 2011, and 2010.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare .....	48.58%	49.14%	50.00%
Wellmark/Blue Cross/Blue Shield .....	25.96	25.94	25.19
Managed Care/Commercial .....	9.86	9.87	10.21
Medicaid .....	8.11	8.07	7.39
All other .....	<u>7.49</u>	<u>6.98</u>	<u>7.21</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Salaries - Salaries increased by \$611,895 in 2012 and \$481,389 in 2011. For the fiscal year ended June 30, 2012, the Hospital employed a total of 457 full-time equivalent employees, compared to 457 in 2011 and 458 in 2010. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits decreased by \$433,760 in 2012 and decreased by \$165,868 in 2011. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

### Capital Assets

At June 30, 2012, the Hospital had \$103,996,042 invested in capital assets as shown in Table 4. During the year, the Hospital had approximately \$4,000,000 in capital additions. Some of the major purchases for the fiscal year include the purchase of a medical office building, purchase of property to be used for a future parking lot, remodel of the diagnostic imaging department waiting area, hospital wide replacement of IV pumps with smart pump technology, various operating room instrumentation, portable x-ray equipment and software for mandated electronic health records.

At June 30, 2011, the Hospital had \$100,239,120 invested in capital assets as shown in Table 4. During the year, the Hospital had approximately \$2,900,000 in capital additions. Some of the major purchases for the fiscal year include the remodel of the medical oncology department, software for mandated electronic health records, and remodeling of the medical office building.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2012, 2011, and 2010.

Table 4

Capital Assets (in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land .....	\$ 2,430	\$ 2,011	\$ 2,011
Land improvements .....	1,541	1,537	1,533
Buildings .....	48,050	47,523	46,418
Fixed equipment .....	8,611	8,552	8,459
Major movable equipment .....	42,904	40,462	37,635
Construction in progress .....	<u>460</u>	<u>154</u>	<u>1,373</u>
Subtotal	103,996	100,239	97,429
Less accumulated depreciation .....	<u>57,847</u>	<u>52,247</u>	<u>46,527</u>
 CAPITAL ASSETS - NET	 <u>\$ 46,149</u>	 <u>\$ 47,992</u>	 <u>\$ 50,902</u>

### Long-Term Debt

The Hospital had long-term debt balances of \$10,216,325 and \$12,056,078 as of June 30, 2012 and 2011, respectively. Further details are provided in the financial statement notes.

### Performance Compared to Budget

The following table compares fiscal year 2012 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual (in thousands)

	FY 2012 <u>Budget</u>	FY 2012 <u>Actual</u>	Dollar Variance Favorable (Unfavorable)
Operating revenues .....	\$68,454	\$67,720	\$ (734)
Operating expenditures .....	<u>64,367</u>	<u>60,891</u>	<u>3,476</u>
Operating income	4,087	6,829	2,742
Other nonoperating changes in net assets .....	<u>513</u>	<u>(217)</u>	<u>(730)</u>
 Excess of revenues over expenses	 <u>\$ 4,600</u>	 <u>\$ 6,612</u>	 <u>\$ 2,012</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when setting fiscal year budgets. Of primary importance in setting the 2013 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing drug costs
- Increasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

**Community Contribution**

During fiscal years 2012 and 2011, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$3,248,280 and \$3,120,434, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical and Occupational), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

**Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared separate financial statements. If you have questions about the report, the Hospital's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

SPENCER MUNICIPAL HOSPITAL  
BALANCE SHEETS  
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2) .....	\$ 26,784,059	\$ 21,328,567
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$11,329,200 and \$9,726,700, respectively (Note 4) .....	7,412,690	7,258,053
Other receivables (Note 10) .....	1,561,933	1,194,951
Investments (Note 2) .....	6,888,058	6,958,453
Inventories .....	2,852,509	2,554,632
Prepaid expenses .....	<u>795,126</u>	<u>718,366</u>
<b>TOTAL CURRENT ASSETS</b>	<u>46,294,375</u>	<u>40,013,022</u>
<b>NONCURRENT CASH AND INVESTMENTS (Note 2):</b>		
Internally designated for capital improvements .....	4,790,820	4,586,749
Principal of permanent endowments .....	1,738,309	1,426,179
Restricted by donors for operations .....	<u>199,535</u>	<u>197,296</u>
<b>TOTAL NONCURRENT CASH AND INVESTMENTS</b>	<u>6,728,664</u>	<u>6,210,224</u>
<b>CAPITAL ASSETS (Notes 5, 11, and 12):</b>		
Land .....	2,430,601	2,011,733
Construction in progress .....	459,756	153,843
Depreciable property, plant, and equipment .....	<u>101,105,685</u>	<u>98,073,544</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>103,996,042</u>	<u>100,239,120</u>
Less accumulated depreciation .....	<u>57,847,225</u>	<u>52,247,136</u>
<b>CAPITAL ASSETS - NET</b>	<u>46,148,817</u>	<u>47,991,984</u>
<b>OTHER ASSETS:</b>		
Investment in Abben (Notes 10 and 11) .....	797,237	795,840
Investment in home medical equipment co. (Note 1) .....	21,180	16,694
Deferred finance costs - net of accumulated amortization of \$82,033 and \$69,570, respectively .....	<u>68,996</u>	<u>81,459</u>
<b>TOTAL OTHER ASSETS</b>	<u>887,413</u>	<u>893,993</u>
<b>TOTAL ASSETS</b>	<u>\$100,059,269</u>	<u>\$ 95,109,223</u>

SPENCER MUNICIPAL HOSPITAL  
BALANCE SHEETS - Continued  
JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 6) .....	\$ 1,602,119	\$ 1,839,763
Accounts payable:		
Trade .....	1,505,273	1,397,753
Construction and equipment .....	138,000	95,000
Accrued salaries and wages .....	2,881,673	3,013,224
Payroll taxes payable .....	169,942	215,002
Estimated third-party payor settlements (Note 3) .....	811,496	592,680
Other current liabilities (Note 9) .....	<u>871,904</u>	<u>886,961</u>
TOTAL CURRENT LIABILITIES	7,980,407	8,040,383
LONG-TERM DEBT - NET OF CURRENT PORTION (Note 6)	<u>8,614,206</u>	<u>10,216,315</u>
TOTAL LIABILITIES	<u>16,594,613</u>	<u>18,256,698</u>
NET ASSETS:		
Invested in capital assets, net of related debt .....	36,001,488	36,017,365
Restricted by donor - nonexpendable .....	1,738,309	1,426,179
Restricted by donor - expendable .....	199,535	197,296
Unrestricted .....	<u>45,525,324</u>	<u>39,211,685</u>
TOTAL NET ASSETS	<u>83,464,656</u>	<u>76,852,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$100,059,269</u>	<u>\$ 95,109,223</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Net patient service revenue (Note 3) .....	\$ 63,702,534	\$ 61,435,335
Abben Cancer Center net earnings .....	1,351,397	917,400
Clinic revenue .....	530,378	544,050
Other operating revenues .....	<u>2,135,814</u>	<u>2,191,991</u>
TOTAL OPERATING REVENUES	<u>67,720,123</u>	<u>65,088,776</u>
OPERATING EXPENSES:		
Salaries .....	21,613,020	21,001,125
Employee benefits .....	7,754,936	8,188,696
Professional services .....	5,374,896	5,429,837
Prescription drugs .....	4,859,122	5,050,961
Supplies and other .....	14,613,217	13,921,633
Clinic expenses .....	848,309	922,290
Depreciation .....	<u>5,827,343</u>	<u>5,779,721</u>
TOTAL OPERATING EXPENSES	<u>60,890,843</u>	<u>60,294,263</u>
OPERATING INCOME	<u>6,829,280</u>	<u>4,794,513</u>
NONOPERATING INCOME (EXPENSES):		
Interest income .....	206,463	187,080
Investment income - net of related expenses .....	84,277	1,903,363
Interest expense .....	(531,506)	(610,334)
Impairment losses .....	(16,000)	(4,456)
Loss on sale of capital assets .....	(6,924)	(21,974)
Scholarships granted .....	<u>(1,000)</u>	<u>(650)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>(264,690)</u>	<u>1,453,029</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	6,564,590	6,247,542
CAPITAL CONTRIBUTIONS .....	<u>47,541</u>	<u>38,040</u>
CHANGE IN NET ASSETS	6,612,131	6,285,582
NET ASSETS - BEGINNING OF YEAR .....	<u>76,852,525</u>	<u>70,566,943</u>
NET ASSETS - END OF YEAR	<u>\$ 83,464,656</u>	<u>\$ 76,852,525</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors .....	\$ 64,297,091	\$ 61,791,302
Cash paid to suppliers for goods and services .....	(25,970,991)	(26,309,729)
Cash paid to employees for services .....	(29,544,567)	(29,070,084)
Other operating revenues .....	1,764,346	2,206,139
Other amounts paid .....	(1,000)	(650)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,544,879</u>	<u>8,616,978</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets .....	(3,969,305)	(2,915,838)
Proceeds from sale of capital assets .....	5,205	5,000
Principal payments on long-term debt .....	(1,839,753)	(1,761,215)
Interest paid on long-term debt .....	(525,770)	(604,308)
Capital grants and contributions received .....	<u>47,541</u>	<u>38,040</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,282,082)</u>	<u>(5,238,321)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments .....	(3,614,218)	(3,324,156)
Proceeds from sale and maturities of investments .....	3,219,494	3,466,707
Income on investments .....	346,859	265,636
Distributions received from Abben .....	1,350,000	850,000
Increase in other assets .....	(15,191)	
Investment in home medical equipment co. ....		(106,220)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,286,944</u>	<u>1,151,967</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,549,741	4,530,624
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>26,453,427</u>	<u>21,922,803</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 32,003,168</u>	<u>\$ 26,453,427</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:		
Cash and cash equivalents per balance sheets (Note 2):		
Current assets .....	\$ 26,784,059	\$ 21,328,567
Included in noncurrent cash and investments .....	<u>5,219,109</u>	<u>5,124,860</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 32,003,168</u>	<u>\$ 26,453,427</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income .....	\$ 6,829,280	\$ 4,794,513
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation .....	5,827,343	5,779,721
Equity in earnings of Abben .....	(1,351,397)	(917,400)
Equity in earnings (losses) of home medical equipment co. ....	(4,486)	65,177
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded .....	(1,000)	(650)
(Increase) decrease in:		
Patient receivables .....	(154,637)	23,863
Other receivables .....	(366,982)	(51,029)
Inventories .....	(297,877)	(316,455)
Prepaid expenses .....	(76,760)	(71,931)
Increase (decrease) in:		
Accounts payable .....	107,520	(501,032)
Accrued salaries and wages .....	(131,551)	(28,574)
Payroll taxes payable .....	(45,060)	148,311
Estimated third-party payor settlements .....	218,816	(211,946)
Other current liabilities .....	<u>(8,330)</u>	<u>(95,590)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$10,544,879</u>	<u>\$ 8,616,978</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:

Capital asset purchases .....	\$ 4,012,305	\$ 2,900,838
Decrease (increase) in construction accounts payable .....	<u>(43,000)</u>	<u>15,000</u>
Cash paid to purchase capital assets	<u>\$ 3,969,305</u>	<u>\$ 2,915,838</u>

In 2010, the Hospital accrued in accounts payable \$106,220 for its investment in home medical equipment company, which was paid in 2011.



ABBEN CANCER CENTER, LLC  
(A Component Unit of Spencer Municipal Hospital)  
BALANCE SHEETS  
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash (Note 2) .....	\$ 363,290	\$ 329,372
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$416,300 and \$571,400, respectively .....	198,233	232,096
Prepaid expenses .....	<u>152,836</u>	<u>153,166</u>
 TOTAL ASSETS	 <u>\$ 714,359</u>	 <u>\$ 714,634</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable .....	\$ 39,791	\$ 39,642
Accounts payable to Spencer Municipal Hospital (Note 10) .....	<u>133,797</u>	<u>135,618</u>
TOTAL CURRENT LIABILITIES	173,588	175,260
 MEMBER'S EQUITY .....	 <u>540,771</u>	 <u>539,374</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 714,359</u>	 <u>\$ 714,634</u>

ABBEN CANCER CENTER, LLC  
 (A Component Unit of Spencer Municipal Hospital)  
 STATEMENTS OF INCOME AND MEMBER'S EQUITY  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE .....	\$3,644,374	\$3,085,099
OPERATING EXPENSES:		
Professional medical services .....	1,317,081	1,220,356
Medical supplies .....	9,330	7,822
Facility expenses .....	857,089	846,906
General and administrative .....	123,019	101,782
TOTAL OPERATING EXPENSES	<u>2,306,519</u>	<u>2,176,866</u>
OPERATING INCOME .....	<u>1,337,855</u>	<u>908,233</u>
NONOPERATING INCOME:		
Interest income .....	966	1,536
Contributions and other income .....	12,576	7,631
TOTAL NONOPERATING INCOME	<u>13,542</u>	<u>9,167</u>
NET INCOME	1,351,397	917,400
MEMBER'S EQUITY - BEGINNING OF YEAR .....	539,374	471,974
DISTRIBUTIONS .....	<u>(1,350,000)</u>	<u>(850,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 540,771</u>	<u>\$ 539,374</u>

ABBEN CANCER CENTER, LLC  
 (A Component Unit of Spencer Municipal Hospital)  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$1,351,397	\$ 917,400
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables .....	33,863	61,529
Other current assets .....	330	(350)
Increase (decrease):		
Accounts payable .....	149	(17,410)
Accounts payable to Spencer Municipal Hospital .....	(1,821)	(68,153)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,383,918</u>	<u>893,016</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid .....	<u>(1,350,000)</u>	<u>(850,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,350,000)</u>	<u>(850,000)</u>
NET INCREASE IN CASH	33,918	43,016
CASH AT BEGINNING OF YEAR .....	<u>329,372</u>	<u>286,356</u>
CASH AT END OF YEAR	<u>\$ 363,290</u>	<u>\$ 329,372</u>

SPENCER MUNICIPAL HOSPITAL AND  
ABBen CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and is an enterprise fund of the City of Spencer, Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, two medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

**Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Government Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company and is considered a discretely presented component unit of the Hospital. Abben was organized on June 20, 1996 and shall continue in existence until June 20, 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 15 through 17. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, its investment is accounted for by using the equity method and it is not considered a component unit of the Hospital. HME was a development stage company in 2010, began operations in 2011, and has been established to sell home medical equipment from a retail location located in Spencer.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEY CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus and Basis of Accounting - Continued**

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

**Noncurrent Cash and Investments**

Noncurrent cash and investments include funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

**Patient Receivables**

Patient receivables are shown at the amount expected to be collected. Patient receivables where a third-party payor is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts and the contractual adjustment by applying historical write off and contractual adjustment percentages to the outstanding balances as segregated by major third-party payor classifications.

**Inventory**

Inventory is valued at the lower of average cost or market using the first-in, first-out method and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

SPENCER MUNICIPAL HOSPITAL AND  
ABBen CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Capital Assets**

Capital assets are stated at average cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. Impairment losses of \$16,000 and \$4,456 were recognized on potential construction projects that were abandoned in 2012 and 2011, respectively.

**Investments**

Investments in common stocks, mutual funds, and real estate held in the permanently endowed funds are carried at fair value based on quoted market prices or third-party appraisals. Investments in real estate not in the endowed funds are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The Hospital's investments in Abben and HME are accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2012 and 2011. The difference is attributable to goodwill which is tested for impairment on an annual basis.

**Deferred Finance Costs**

Deferred finance costs are stated at cost and are amortized over the term of the revenue bonds using the straight-line method.

**Net Assets**

Net assets are presented in the following categories:

*Invested in capital assets, net of related debt* consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted by donor - nonexpendable net assets* consist of the principal portion of permanent endowments.

*Restricted by donor - expendable net assets* consist of noncapital net assets that must be used for a particular purpose as specified by the donors.

*Unrestricted net assets* consist of net assets not meeting the definition of the three preceding categories. Unrestricted net assets often have constraints on resources imposed by management or the board of trustees which can be removed or modified.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Assets - Continued**

When both restricted and unrestricted net assets are available for use, generally it is the Hospital's policy to use restricted net assets first.

**Operating Revenues and Expenses**

The Hospital and Abben's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

**Net Patient Service Revenue**

Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Interest and Investment Income**

Interest and investment income are recorded as nonoperating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate in the permanently endowed funds.

**Interest Expense**

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

**Charity Care and Community Benefits**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2012 and 2011, were \$644,528 and \$532,979, respectively. The costs of charity care are estimated to be \$252,000 and \$216,000 for 2012 and 2011, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Charity Care and Community Benefits - Continued**

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical and Occupational Therapy), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

**Income Taxes**

The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986.

Abben is not a tax paying entity for federal and state income tax purposes and all of its net income is attributable to the Hospital and is therefore tax exempt. As a limited liability company, Abben is subject to accounting standards that apply to pass-through entities, which prescribe a comprehensive model for how a company measures, recognizes, presents, and discloses in its financial statements uncertain tax positions. Based upon management's evaluation of the current facts and circumstances, no income tax liability or expense has been recorded in its financial statements.

**Reclassification**

In July 2011, FASB amended the accounting standards for the financial statement presentation of bad debt expense in the statement of revenues, expenses, and changes in net assets for health care entities. The new standards require the presentation of bad debt expense to be an adjustment to net patient revenue instead of being an operating expense. The Hospital elected to adopt this new standard early; and while the new standard had no impact on operating income or the change in net assets, the 2011 statements and disclosures were reclassified to conform to the 2012 presentation.

**Management's Review**

In preparation of the financial statements, management has evaluated subsequent events through October 3, 2012, which is the date the financial statements were available to be issued.

**2. CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2012 and 2011 were entirely covered by FDIC or SIPC insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds. At June 30, 2012 and 2011, Abben had uninsured bank balances of \$113,241 and \$79,372, respectively.



SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies (mutual funds); certain joint investment trusts; investments in common stocks; and warrants or improvement certificates of a drainage district.

The Hospital's cash and investments at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents .....	\$32,003,168	\$26,453,427
Certificate of deposit .....	125,000	
Common stocks and mutual funds .....	6,888,058	6,958,453
Real estate and other .....	<u>1,384,555</u>	<u>1,085,364</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$40,400,781</u>	 <u>\$34,497,244</u>

The cash and investments shown above are included in the Hospital's balance sheets as follows:

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents .....	\$26,784,059	\$21,328,567
Investments - common stocks and mutual funds .....	<u>6,888,058</u>	<u>6,958,453</u>
Subtotal .....	<u>33,672,117</u>	<u>28,287,020</u>
Noncurrent cash and investments:		
Cash and cash equivalents .....	5,219,109	5,124,860
Certificate of deposit .....	125,000	
Real estate .....	<u>1,384,555</u>	<u>1,085,364</u>
Subtotal .....	<u>6,728,664</u>	<u>6,210,224</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$40,400,781</u>	 <u>\$34,497,244</u>

Common stock and mutual fund investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains on investments at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Common stocks .....	\$ 1,136,613	\$ 1,595,413
Real estate .....	<u>1,108,894</u>	<u>824,894</u>
 Net unrealized gain	 <u>\$ 2,245,507</u>	 <u>\$ 2,420,307</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

Investment income consisted of the following:

	<u>2012</u>	<u>2011</u>
Unrealized gains (losses) on common stocks and mutual funds .....	\$ (458,800)	\$ 1,289,694
Unrealized gains on real estate .....	284,000	246,400
Realized gains on common stocks and mutual funds .....	118,681	288,713
Dividend income .....	62,931	41,105
Rental income - net of expenses .....	<u>77,465</u>	<u>37,451</u>
 TOTAL INVESTMENT INCOME - NET	 <u>\$ 84,277</u>	 <u>\$ 1,903,363</u>

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

**3. NET PATIENT SERVICE REVENUE**

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 92 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2012 and 2011 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital and Abben in future years.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**3. NET PATIENT SERVICE REVENUE - Continued**

The following summarizes the differences between the Hospital's gross patient service revenue determined at established rates and net patient service revenue:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue - at established rates .	\$139,388,404	\$133,293,147
Adjustments:		
Medicare program .....	42,761,871	41,659,130
Medicaid program .....	8,124,723	7,656,806
Blue Cross/Wellmark .....	16,990,825	15,440,836
Other payors .....	4,560,171	3,980,606
Charity care .....	644,528	532,979
Bad debts .....	<u>2,603,752</u>	<u>2,587,455</u>
Total Adjustments	<u>75,685,870</u>	<u>71,857,812</u>
Net Patient Service Revenue	<u>\$ 63,702,534</u>	<u>\$ 61,435,335</u>

**4. PATIENT RECEIVABLES**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011 was:

	<u>2012</u>	<u>2011</u>
Medicare .....	\$ 7,068,407	\$ 6,192,380
Medicaid .....	1,744,866	1,086,204
Blue Cross/Wellmark .....	3,900,333	4,033,136
Other payors .....	5,909,123	5,527,053
Clinics .....	<u>119,161</u>	<u>145,980</u>
Total patient receivables	<u>18,741,890</u>	<u>16,984,753</u>
Less allowance for doubtful accounts .....	2,346,000	2,143,000
Less allowance for contractual adjustments .....	<u>8,983,200</u>	<u>7,583,700</u>
Total allowances	<u>11,329,200</u>	<u>9,726,700</u>
Patient Receivables	<u>\$ 7,412,690</u>	<u>\$ 7,258,053</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**5. CAPITAL ASSETS**

A summary of the Hospital's changes in capital assets for 2012 and 2011 is as follows:

Year Ended June 30, 2012					
	Beginning Balance	Additions	Impairment Losses	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:					
Land .....	\$ 2,011,733	\$ 86,219	\$ -	\$ 332,649	\$ 2,430,601
Construction in progress .....	153,843	2,227,460	(16,000)	(1,905,547)	459,756
Total capital assets not being depreciated	<u>2,165,576</u>	<u>2,313,679</u>	<u>(16,000)</u>	<u>(1,572,898)</u>	<u>2,890,357</u>
Other capital assets:					
Land improvements .....	1,537,022	-	-	3,500	1,540,522
Buildings .....	47,522,573	220,433	-	307,112	48,050,118
Fixed equipment .....	8,551,517	25,030	-	34,784	8,611,331
Major moveable equipment .....	40,462,432	1,453,163	-	988,119	42,903,714
Total other capital assets	<u>98,073,544</u>	<u>1,698,626</u>	<u>-</u>	<u>1,333,515</u>	<u>101,105,685</u>
Total capital assets	<u>100,239,120</u>	<u>4,012,305</u>	<u>(16,000)</u>	<u>(239,383)</u>	<u>103,996,042</u>
Less accumulated depreciation for:					
Land improvements .....	875,125	89,394	-	-	964,519
Buildings .....	16,023,624	1,620,740	-	-	17,644,364
Fixed equipment .....	6,637,118	307,851	-	-	6,944,969
Major moveable equipment .....	28,711,269	3,809,358	-	(227,254)	32,293,373
Total accumulated depreciation	<u>52,247,136</u>	<u>5,827,343</u>	<u>-</u>	<u>(227,254)</u>	<u>57,847,225</u>
CAPITAL ASSETS - NET	<u>\$ 47,991,984</u>	<u>\$(1,815,038)</u>	<u>\$ (16,000)</u>	<u>\$ (12,129)</u>	<u>\$ 46,148,817</u>
Year Ended June 30, 2011					
	Beginning Balance	Additions	Impairment Losses	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:					
Land .....	\$ 2,011,733	\$ -	\$ -	\$ -	\$ 2,011,733
Construction in progress .....	1,372,630	1,337,248	-	(2,556,035)	153,843
Total capital assets not being depreciated	<u>3,384,363</u>	<u>1,337,248</u>	<u>-</u>	<u>(2,556,035)</u>	<u>2,165,576</u>
Other capital assets:					
Land improvements .....	1,532,995	-	-	4,027	1,537,022
Buildings .....	46,417,919	76,813	-	1,027,841	47,522,573
Fixed equipment .....	8,459,422	9,584	(4,456)	86,967	8,551,517
Major moveable equipment .....	37,634,760	1,477,193	-	1,350,479	40,462,432
Total other capital assets	<u>94,045,096</u>	<u>1,563,590</u>	<u>(4,456)</u>	<u>2,469,314</u>	<u>98,073,544</u>
Total capital assets	<u>97,429,459</u>	<u>2,900,838</u>	<u>(4,456)</u>	<u>(86,721)</u>	<u>100,239,120</u>
Less accumulated depreciation for:					
Land improvements .....	783,309	91,816	-	-	875,125
Buildings .....	14,382,847	1,640,777	-	-	16,023,624
Fixed equipment .....	6,323,577	313,541	-	-	6,637,118
Major moveable equipment .....	25,037,429	3,733,587	-	(59,747)	28,711,269
Total accumulated depreciation	<u>46,527,162</u>	<u>5,779,721</u>	<u>-</u>	<u>(59,747)</u>	<u>52,247,136</u>
CAPITAL ASSETS - NET	<u>\$50,902,297</u>	<u>\$(2,878,883)</u>	<u>\$ (4,456)</u>	<u>\$ (26,974)</u>	<u>\$ 47,991,984</u>

SPENCER MUNICIPAL HOSPITAL AND  
ABBEY CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**6. LONG-TERM DEBT**

The Hospital's long-term debt activity as of and for the years ended June 30, 2012 and 2011 is as follows:

	June 30, 2011	Payments	June 30, 2012	Due Within One Year
Hospital Revenue Bonds Series 2008 A (A)	\$ 6,213,434	\$ (715,773)	\$ 5,497,661	\$ 748,226
Hospital Revenue Bonds Series 2008 B (B)	5,019,008	(561,908)	4,457,100	592,329
2007 Hospital Revenue Bonds (C) .....	<u>823,636</u>	<u>(562,072)</u>	<u>261,564</u>	<u>261,564</u>
	<u>\$12,056,078</u>	<u>\$ (1,839,753)</u>	<u>\$10,216,325</u>	<u>\$1,602,119</u>

  

	June 30, 2010	Payments	June 30, 2011	Due Within One Year
Hospital Revenue Bonds Series 2008 A (A)	\$ 6,899,458	\$ (686,024)	\$ 6,213,434	\$ 715,773
Hospital Revenue Bonds Series 2008 B (B)	5,553,292	(534,284)	5,019,008	561,908
2007 Hospital Revenue Bonds (C) .....	<u>1,364,543</u>	<u>(540,907)</u>	<u>823,636</u>	<u>562,082</u>
	<u>\$13,817,293</u>	<u>\$ (1,761,215)</u>	<u>\$12,056,078</u>	<u>\$1,839,763</u>

(A) The Series 2008A bonds are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.

(B) The Series 2008B bonds are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.

(C) The 2007 revenue bonds are payable in monthly principal and interest payments of \$48,668 through January 2013 at a fixed interest rate of 3.8%.

The maturities and payment components of the Hospital's long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,602,119	\$ 443,690	\$ 2,045,809
2014	1,405,121	376,389	1,781,510
2015	1,472,821	308,688	1,781,509
2016	1,543,192	238,318	1,781,510
2017	1,618,215	163,296	1,781,511
2018 - 2019	<u>2,574,857</u>	<u>97,427</u>	<u>2,672,284</u>
TOTAL	<u>\$10,216,325</u>	<u>\$1,627,808</u>	<u>\$11,844,133</u>

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**6. LONG-TERM DEBT - Continued**

The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. The net pledged revenues, as defined in the bond document, and the principal and interest requirements for the Hospital's long-term debt are as follows:

	<u>2012</u>	<u>2011</u>
Net pledged revenues .....	<u>\$ 9,970,980</u>	<u>\$ 9,675,638</u>
Principal and interest requirements .....	<u>\$ 2,073,516</u>	<u>\$ 2,365,523</u>

**7. RETIREMENT PLAN**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Hospital is required to contribute 8.07% of annual covered payroll for 2012. For 2011 and 2010, the member contribution rates were 4.50% and 4.30%, and the Hospital contribution rates were 6.95% and 6.65%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2012, 2011, and 2010 were \$1,759,365, \$1,489,503, and \$1,404,054, respectively, equal to the required contributions for each year.

**8. OTHER POST EMPLOYMENT BENEFITS**

In accordance with state law, the Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 461 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit (OPEB) liability. The contribution requirements of the plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**8. OTHER POST EMPLOYMENT BENEFITS - Continued**

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2012, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC .....	\$ 86,397
Interest on net OPEB obligation .....	7,076
Adjustment to annual required contribution .....	<u>(9,653)</u>
Annual OPEB cost	83,820
(Contributions made) claims paid .....	<u>(50,623)</u>
Increase in net OPEB obligation	33,197
Net OPEB obligation - beginning of year .....	<u>157,241</u>
 Net OPEB obligation - end of year	 <u><u>\$190,438</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the Hospital contributed \$50,623 to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Fiscal Year Ended <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2010	\$ 79,783	15%	\$ 67,467
2011	78,677	(14)%	157,241
2012	83,820	60%	190,438

As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$764,554 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$764,554. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$18,840,000, and the ratio of the UAAL to the covered payroll was 4.1%. As of June 30, 2012 and 2011, there were no trust fund assets.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**8. OTHER POSTEMPLOYMENT BENEFITS - Continued**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Following is a Schedule Funding Progress for the Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ -	\$662,439	\$662,439	0%	\$17,710,000	3.7%
July 1, 2010	\$ -	\$662,439	\$662,439	0%	\$17,710,000	3.7%
July 1, 2011	\$ -	\$764,554	\$764,554	0%	\$18,840,000	4.1%

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 5%. The Hospital's trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,238 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**9. RISK MANAGEMENT**

The Hospital and Abben are exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.



SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**9. RISK MANAGEMENT - Continued**

The Hospital is self-insured for the following types of risk exposures:

**Health Benefits**

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$70,000 per individual and an aggregate stop loss amount of approximately \$5.2 million. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$416,029 and \$523,615 at June 30, 2012 and 2011, respectively, and are included in other current liabilities.

**Unemployment Compensation**

The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

**10. RELATED PARTY TRANSACTIONS**

**Spencer Regional Healthcare Foundation**

The Spencer Regional Healthcare Foundation (Foundation) is a tax-exempt non-profit organization to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board, but it does include a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. The Foundation made charitable contributions to the Hospital in the amount of \$17,786 and \$36,740 during 2012 and 2011, respectively.

**Abben Cancer Center, LLC**

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with Abben:

	<u>2012</u>	<u>2011</u>
Personnel service fees for benefits and expenses .....	\$ <u>180,483</u>	\$ <u>174,725</u>
Leased employees' salaries .....	\$ <u>387,842</u>	\$ <u>376,888</u>
Building and equipment rental income .....	\$ <u>564,981</u>	\$ <u>561,378</u>

At June 30, 2012 and 2011, the Hospital's receivable from Abben was \$133,797 and \$135,618, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RELATED PARTY TRANSACTIONS - Continued**

**Board of Trustees**

The Hospital has depository accounts at local financial institutions who are affiliated with two Hospital trustees. The Hospital earned interest income of \$16,005 and \$32,133 in 2012 and 2011, respectively, on accounts held at these financial institutions.

The Hospital purchased supplies of \$723 and \$1,485 from a company owned in part by a Hospital trustee in 2012 and 2011, respectively.

The Hospital incurred farm management fees of \$6,048 and \$6,004 from a company owned in part by a Hospital trustee in 2012 and 2011, respectively.

**11. OPERATING LEASES**

The Hospital has entered into noncancelable operating lease agreements involving three medical clinics. The Hospital has exercised its renewal options which have extended the leases to various dates through fiscal year 2019. The rental expense for 2012 and 2011 was \$436,244 and \$426,647, respectively.

The following is a schedule of future minimum rental payments to be made:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 436,247
2014	137,022
2015	77,100
2016	77,100
2017	77,100
2018 - 2019	<u>89,651</u>
<b>TOTAL</b>	<b><u>\$ 894,220</u></b>

The Hospital subleases one of the above clinics and leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The original terms of the leases expired at various dates through 2017, but they do have optional renewal clauses (which have been exercised) and annual rental increase clauses to recover increased expenses. The rental income under the agreements for 2012 and 2011 was \$547,828 and \$484,623, respectively, and is included in investment income.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**11. OPERATING LEASES - Continued**

The following is a schedule of future minimum rental payments to be received including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 320,278
2014	86,950
2015	86,950
2016	77,465
2017	<u>49,011</u>
 TOTAL	 <u>\$ 620,654</u>

The cost and accumulated depreciation of the leased property including the property leased to Abben are as follows:

	<u>2012</u>	<u>2011</u>
Medical office buildings .....	\$ 3,735,921	\$ 3,508,486
Medical clinic equipment .....	253,537	252,290
Abben building .....	2,543,163	2,543,163
Abben equipment .....	<u>4,001,597</u>	<u>4,001,597</u>
Total property and equipment	10,534,218	10,305,536
Less accumulated depreciation .....	<u>4,518,765</u>	<u>3,907,972</u>
 Net property and equipment	 <u>\$ 6,015,453</u>	 <u>\$ 6,397,564</u>

**12. COMMITMENTS**

The Hospital has committed to construct or purchase various capital improvement projects totaling approximately \$8,600,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other various agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. As of June 30, 2012, the total amount expected to be paid on these commitments is approximately \$2,500,000 with the majority to be paid in 2013.

**SPENCER MUNICIPAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

SPENCER MUNICIPAL HOSPITAL  
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>				
	<u>Original</u>	<u>GAAP Adjustments</u>	<u>GAAP Budget</u>	<u>Actual</u>	<u>Final to Actual Variance</u>
Operating revenues .....	\$71,368,100	\$ (2,914,300)	\$68,453,800	\$67,720,123	\$ (733,677)
Operating expenditures .....	<u>67,819,300</u>	<u>(3,452,500)</u>	<u>64,366,800</u>	<u>60,890,843</u>	<u>3,475,957</u>
Operating income	3,548,800	538,200	4,087,000	6,829,280	2,742,280
Other nonoperating changes in net assets .....	<u>1,051,200</u>	<u>(538,200)</u>	<u>513,000</u>	<u>(217,149)</u>	<u>(730,149)</u>
Changes in Net Assets	<u>\$ 4,600,000</u>	<u>\$ -</u>	<u>\$ 4,600,000</u>	<u>\$ 6,612,131</u>	<u>\$2,012,131</u>

## NOTES

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

The Hospital Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Hospital classifies interest and bad debt expenses on a budget basis different from generally accepted accounting principles (GAAP). Interest expense is classified as an operating expense for the budget but is classified as a nonoperating expense for GAAP, and bad debt expense is classified as an operating expense for the budget but is classified in operating revenues for GAAP.

For 2012, the Hospital's expenditures did not exceed the amount budgeted.

**SPENCER MUNICIPAL HOSPITAL  
SUPPLEMENTAL INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICE:</b>						
Medical and surgery.....	\$ 6,067,401	\$ 634,432	\$ -	\$ -	\$ 6,701,833	\$ 6,540,089
Mental health.....	3,561,276	-	-	-	3,561,276	3,243,116
Nursery.....	420,275	-	-	-	420,275	427,606
Intensive care.....	1,232,646	3,272	-	-	1,235,918	1,245,007
Skilled care.....	-	-	416,745	-	416,745	578,100
<b>TOTAL DAILY PATIENT SERVICES</b>	<b>11,281,598</b>	<b>637,704</b>	<b>416,745</b>	<b>-</b>	<b>12,336,047</b>	<b>12,033,918</b>
<b>OTHER NURSING SERVICES:</b>						
Partial hospitalization.....	-	105,513	-	-	105,513	187,370
Same day surgery.....	3,149	1,770,341	-	-	1,773,490	1,579,152
Intravenous therapy.....	599,454	777,388	14,127	-	1,390,969	1,715,857
Delivery and labor rooms.....	951,708	536,452	-	-	1,488,160	1,330,858
Operating rooms.....	7,600,372	23,690,877	18,928	-	31,310,177	29,155,785
Post anesthesia care unit.....	764,968	2,405,530	2,050	-	3,172,548	3,444,268
Emergency service.....	1,566,970	6,216,862	-	-	7,783,832	7,419,773
Medical supplies.....	13,923,763	5,234,413	16,617	928	19,175,721	17,853,767
Medical oncology.....	190	2,121,271	-	-	2,121,461	2,020,667
<b>TOTAL OTHER NURSING SERVICES</b>	<b>25,410,574</b>	<b>42,858,647</b>	<b>51,722</b>	<b>928</b>	<b>68,321,871</b>	<b>64,707,497</b>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Respiratory therapy.....	575,726	46,106	31,681	-	653,513	651,415
Ambulance.....	-	1,493,177	-	-	1,493,177	1,527,336
Laboratory.....	2,508,380	4,306,095	53,364	-	6,867,839	6,531,666
Blood bank.....	228,301	126,204	403	-	354,908	436,689
Electrocardiology.....	451,311	976,934	2,573	-	1,430,818	1,469,899
Electroencephalography.....	728	10,189	-	-	10,917	23,566
Radiology.....	956,140	4,837,411	13,924	-	5,807,475	5,459,609
Ultrasound.....	185,749	2,026,130	2,460	-	2,214,339	2,148,785
Stereotactic biopsy.....	-	281,110	-	-	281,110	382,166

See Independent Auditors' Report.

## Schedule 1 - Cont.

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE - Continued  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
OTHER PROFESSIONAL SERVICES-						
Continued:						
CT scan.....	\$ 859,908	\$ 6,421,190	\$ 3,515	\$ -	\$ 7,284,613	\$ 6,810,779
MRI.....	174,277	2,369,510	-	-	2,543,787	2,913,224
Nuclear medicine.....	42,572	1,053,797	-	-	1,096,369	1,074,440
Radiation oncology.....	14,964	-	20,931	-	35,895	123,716
Pharmacy.....	3,177,228	11,039,603	162,132	-	14,378,963	14,083,063
Therapy pool.....	-	213,610	-	-	213,610	199,597
Anesthesiology.....	670,360	1,305,710	638	-	1,976,708	1,853,633
Physical therapy.....	482,735	1,404,249	55,311	46,331	1,988,626	1,747,092
Speech therapy.....	17,456	298,960	4,365	264	321,045	362,426
Enterostomal service.....	32,401	258,763	9,533	-	300,697	315,825
Occupational therapy.....	320,503	418,305	33,622	9,982	782,412	704,295
Pulmonary function testing.....	2,265	157,339	-	-	159,604	148,857
Sleep study.....	1,600	628,167	-	-	629,767	662,503
Pulmonary rehab.....	-	26,859	-	-	26,859	31,229
Cardiac rehab.....	-	290,178	-	-	290,178	266,631
Dialysis - Spencer.....	1,783	1,890,402	-	-	1,892,185	1,688,099
Dialysis - Spirit Lake.....	-	2,616,244	-	-	2,616,244	2,184,399
Home health:						
Registered nurse care.....	-	-	-	611,170	611,170	685,976
Aides care.....	-	-	-	543,208	543,208	570,550
County assistance.....	-	-	-	100,000	100,000	100,000
Other care.....	-	-	-	1,824,450	1,824,450	1,394,267
TOTAL OTHER PROFESSIONAL SERVICES	10,704,387	44,496,242	394,452	3,135,405	58,730,486	56,551,732
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 47,396,559	\$ 87,992,593	\$ 862,919	\$ 3,136,333	\$ 139,388,404	\$ 133,293,147

See Independent Auditors' Report.



SPENCER MUNICIPAL HOSPITAL  
NET PATIENT SERVICE REVENUE  
AND OTHER OPERATING REVENUES  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 139,388,404	\$ 133,293,147
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	42,761,871	41,659,130
Medicaid program.....	8,124,723	7,656,806
Blue Cross / Wellmark.....	16,990,825	15,440,836
Other payors.....	4,560,171	3,980,606
Charity care.....	644,528	532,979
Bad debts.....	2,603,752	2,587,455
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>75,685,870</u>	<u>71,857,812</u>
NET PATIENT SERVICE REVENUE	<u>\$ 63,702,534</u>	<u>\$ 61,435,335</u>
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 180,483	\$ 174,725
Building and equipment rental.....	564,981	561,378
Ag health and safety clinic.....	74,776	44,881
Athletic enhancement.....	89,998	87,814
Auxiliary income.....	20,288	21,529
Billing fee revenue .....	-	16,582
Cafeteria sales.....	338,912	322,312
Diagnostic imaging storage.....	25,204	19,458
Earnings (loss) of home medical equipment company.....	4,486	(65,177)
Education programs.....	115,919	93,844
Employee health.....	5,626	5,828
Immunizations .....	53,117	57,613
Laboratory client billing.....	46,715	15,901
Lifeline.....	-	86,093
Medical record transcripts.....	20,926	24,828
Miscellaneous.....	60,115	164,193
Outreach services:		
Enterostomal therapy.....	81,304	104,530
Speech therapy.....	37,160	47,392
Occupational therapy.....	41,107	53,613
Physical therapy.....	132,740	157,054
Planet heart and stroke screening.....	66,795	47,450
Purchase discounts.....	15,902	9,563
Salary reimbursements:		
Sports medicine.....	38,215	5,618
Other.....	104,360	95,897
Steam sold.....	3,335	3,072
Technology consulting.....	13,350	36,000
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,135,814</u>	<u>\$ 2,191,991</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Salaries		Professional Services		Supplies and Other Expenses	
	2012	2011	2012	2011	2012	2011
Clinical resources.....	\$ 361,555	\$ 331,862	\$ -	\$ -	\$ 674	\$ 527
Medical and surgery .....	1,991,703	1,983,165	18,287	67,688	170,579	173,965
Obstetrics.....	586,976	559,127	-	770	45,474	48,266
Mental health.....	954,068	880,905	34,945	12,204	24,491	23,179
Intensive care.....	488,461	488,507	85,825	85,318	26,751	29,024
Intravenous therapy.....	-	-	-	-	37,367	50,884
Operating room.....	1,120,100	1,047,073	567,825	517,678	1,110,761	832,795
Post anesthesia care unit.....	299,312	323,970	2	82,587	98,614	131,000
Emergency service.....	838,171	763,263	1,435,647	1,372,544	71,784	69,117
Central sterilization.....	108,806	119,235	1,956	121,467	197,286	184,138
Service aide.....	35,725	36,258	-	-	-	-
Same day surgery.....	965,707	891,613	652	105,555	78,736	56,840
Home health.....	863,928	938,942	28,322	6,494	58,376	65,362
Hospice.....	184,172	156,259	124,235	109,052	19,676	18,137
Enterostomal service.....	111,238	121,330	-	-	21,046	22,399
Dialysis - Spencer.....	381,331	321,658	54,895	52,148	111,724	114,508
Dialysis - Spirit Lake.....	382,400	346,220	105,309	94,976	225,032	213,054
Partial hospitalization.....	32,129	33,390	280	80	908	2,359
Medical oncology.....	338,700	309,324	172,484	204,600	29,560	22,947
Respiratory therapy.....	272,978	251,154	4,033	19,500	22,196	30,690
Laboratory.....	681,112	702,365	204,484	216,093	380,397	431,020
Blood bank.....	-	-	-	-	259,618	293,968
Electrocardiology.....	41,284	75,440	74,732	73,101	265	200

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Salaries		Professional Services		Supplies and Other Expenses	
	2012	2011	2012	2011	2012	2011
Radiology.....	\$ 563,781	\$ 512,832	\$ 62,529	\$ 160	\$ 392,107	\$ 362,395
Ultrasound.....	157,372	153,166	5,079	1,123	25,889	23,389
Stereotactic biopsy.....	-	-	-	95,555	-	152
MRI.....	63,080	69,063	-	-	166,988	174,086
Athletic enhancement.....	61,340	73,437	180	1,125	8,656	3,803
Nuclear medicine.....	96,639	96,651	-	-	206,393	218,130
Pharmacy.....	993,680	976,807	119,334	100,210	70,367	65,749
Anesthesiology.....	54,116	60,865	100	20,010	211,257	205,256
Physical therapy.....	647,555	649,026	360	176	37,093	41,616
Ambulance.....	536,919	507,412	8	161	84,928	68,845
Social services.....	86,467	80,982	-	-	52	332
Cardiac rehabilitation.....	122,148	117,297	-	-	9,292	6,994
Medical records.....	572,732	566,179	96,506	100,073	37,699	42,109
CT scan.....	193,133	191,152	97,354	74,315	268,902	101,145
Occupational therapy.....	263,984	261,756	33,402	19	18,519	17,412
Infection control.....	65,268	64,077	-	-	1,269	991
Speech therapy.....	121,749	122,345	47	-	7,052	6,508
AG health and safety clinic.....	33,734	32,091	95	75	33,887	33,071
Sleep studies.....	37,696	79,366	104,541	36,315	7,001	15,908
Sports medicine.....	17,558	16,603	382,800	360,021	81,758	65,497
Lifeline.....	-	7,005	-	37,464	-	2,724

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Salaries		Professional Services		Supplies and Other Expenses	
	2012	2011	2012	2011	2012	2011
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ 5,051	\$ 3,084
Plant.....	506,655	511,174	-	3,258	283,152	314,586
Utilities.....	-	-	-	-	774,478	785,202
Housekeeping.....	584,872	541,854	159,588	159,653	102,666	97,365
Laundry.....	22,080	79,393	188,598	53,902	64,290	68,955
Nutrition services.....	730,296	672,365	234,805	250,998	603,581	528,264
Valet.....	65,679	65,957	-	-	4,793	4,227
General accounting.....	319,078	297,424	7,744	7,430	17,737	15,501
Human resources.....	244,936	236,719	1,319	1,475	152,290	69,315
Patient accounts.....	724,766	704,427	269,695	225,149	80,846	72,401
Information systems.....	528,806	498,787	110,153	31,389	698,536	724,186
Administration.....	1,147,835	1,109,642	204,896	339,876	919,551	917,261
Safety.....	38,326	-	-	-	176	-
Materials management.....	158,824	141,184	2,000	2,000	55,360	42,057
Communications.....	-	-	7,927	1,484	88,566	96,142
Central supply.....	76,836	74,605	-	-	5,672,216	5,480,400
Printing and duplicating.....	14,209	15,189	-	-	139,494	146,390
Insurance.....	-	-	-	-	237,863	231,776
Staff development.....	210,836	198,965	54,389	53,225	27,875	29,713
Medical care evaluation.....	396,006	380,920	175,559	179,466	17,438	18,272
PET/CT scan.....	-	-	141,975	151,875	1,935	2,111
Women's health.....	33,406	29,210	-	-	4,205	3,569
SHAPE .....	80,767	124,138	-	-	694	365
<b>TOTAL</b>	<b>\$ 21,613,020</b>	<b>\$ 21,001,125</b>	<b>\$ 5,374,896</b>	<b>\$ 5,429,837</b>	<b>\$ 14,613,217</b>	<b>\$ 13,921,633</b>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

## PATIENT RECEIVABLES ANALYSIS OF AGING:

	2012		2011	
	Amount	Percent To Total	Amount	Percent To Total
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 8,096,676	43.20%	\$ 7,289,475	42.92%
31 - 60.....	2,088,959	11.15%	1,796,277	10.59%
61 - 90.....	1,090,284	5.82%	1,065,705	6.27%
91 - 120.....	861,238	4.60%	784,157	4.62%
Over 120.....	2,326,396	12.41%	1,841,684	10.84%
Clinic receivables.....	119,161	0.64%	145,980	0.86%
TOTAL RECEIVABLES BILLED	14,582,714	77.81%	12,923,278	76.09%
In Hospital.....	4,159,176	22.19%	4,061,475	23.91%
TOTAL PATIENT RECEIVABLES	18,741,890	100.00%	16,984,753	100.00%
Allowance for doubtful accounts.....	(2,346,000)		(2,143,000)	
Allowance for contractual adjustments.....	(8,934,000)		(7,527,000)	
Clinic allowance for contractual adjustments ...	(49,200)		(56,700)	
TOTAL ADJUSTMENTS	(11,329,200)		(9,726,700)	
PATIENT RECEIVABLES - NET	\$ 7,412,690		\$ 7,258,053	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2012	2011
BALANCE - BEGINNING OF YEAR	\$ 2,143,000	\$ 2,055,000
Provision charged to expense.....	2,603,752	2,587,455
Accounts written off.....	(3,179,580)	(3,240,456)
Recoveries of accounts previously written off.....	778,828	741,001
BALANCE - END OF YEAR	\$ 2,346,000	\$ 2,143,000

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVENTORIES AND PREPAID EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
INVENTORIES:		
Store room.....	\$ 377,661	\$ 522,777
Nutrition services.....	22,548	22,943
Laboratory.....	87,845	75,329
Laundry.....	-	4,694
Pharmacy.....	727,571	642,532
Radiology.....	11,995	14,071
Surgery.....	1,575,723	1,224,383
Other departments.....	49,166	47,903
	<u>          </u>	<u>          </u>
TOTALS	<u>\$ 2,852,509</u>	<u>\$ 2,554,632</u>

PREPAID EXPENSES:		
Service contracts and other.....	\$ 719,407	\$ 648,293
Association dues.....	38,361	37,728
Insurance.....	37,358	32,345
	<u>          </u>	<u>          </u>
TOTALS	<u>\$ 795,126</u>	<u>\$ 718,366</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVESTMENT TRANSACTIONS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Balances Beginning of Year</u>	<u>Additions During the Year</u>	<u>Sales During the Year</u>	<u>Realized &amp; Unrealized Gains (Losses)</u>	<u>Balances End of Year</u>
Certificate of deposit..... \$	-	\$ 125,000	\$ -	\$ -	\$ 125,000
Common stocks and mutual funds.....	6,958,453	3,489,218	(3,219,494)	(340,119)	6,888,058
Real estate and other....	1,085,364	15,191	-	284,000	1,384,555
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 8,043,817</u>	<u>\$ 3,629,409</u>	<u>\$ (3,219,494)</u>	<u>\$ (56,119)</u>	<u>\$ 8,397,613</u>

See Independent Auditors' Report.

**SPENCER MUNICIPAL HOSPITAL  
OTHER INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**



SPENCER MUNICIPAL HOSPITAL  
COMPARATIVE STATISTICS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011  
UNAUDITED

	<u>2012</u>	<u>2011</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,147	2,378
Mental health unit.....	597	560
Swing bed and inn care.....	106	173
Newborns.....	<u>265</u>	<u>274</u>
 TOTAL	 <u>3,115</u>	 <u>3,385</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,169	2,349
Mental health unit.....	605	566
Swing bed and inn care.....	117	185
Newborns.....	<u>268</u>	<u>276</u>
 TOTAL	 <u>3,159</u>	 <u>3,376</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	7,623	8,052
Mental health unit.....	3,634	3,471
Swing bed and inn care.....	884	1,251
Newborns.....	<u>588</u>	<u>611</u>
 TOTAL	 <u>12,729</u>	 <u>13,385</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.55	3.39
Mental health unit.....	6.09	6.20
Swing bed and inn care.....	8.34	7.23
Newborns.....	2.22	2.23
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	20.88	22.06
Mental health unit.....	9.96	9.51
Swing bed and inn care.....	2.42	3.43
Newborns.....	1.61	1.67
 Outpatient visits.....	 <u>120,682</u>	 <u>121,793</u>
 Licensed beds at end of year.....	 <u>99</u>	 <u>99</u>

See Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

To the Board of Trustees of  
Spencer Municipal Hospital

We have audited the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 3, 2012. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the government financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Spencer Municipal Hospital and other parties to whom Spencer Municipal Hospital may report and is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Stave & Co., LLP

October 3, 2012

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Financial Statements**

None

**Part II: Other Findings Related to Required Statutory Reporting**

**II-A-12 Certified Budget**

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amount budgeted.

**II-B-12 Questionable Expenditures**

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

**II-C-12 Travel Expense**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**II-D-12 Business Transactions**

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member Chairman of Northwest Bank	Interest income from Northwest Bank	\$11,012
Kris Van Berkum, Board member Co-owner JCL Solutions	Purchase of cleaning supplies	723
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	6,048
Co-owner Community State Bank	Interest income from Community State Bank	4,993

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

**II-E-12     Board Minutes**

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

**II-F-12     Deposits and Investments**

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.